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SUBJECT: NETHERLANDS: NEW ECONOMIC STIMULUS PACKAGE, MERGER  
OF FORTIS AND ABN AMRO BANKS

REF: A. THE HAGUE 910

[1B.](#) THE HAGUE 901

[1C.](#) THE HAGUE 840

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[¶11.](#) (SBU) Summary: The Government of the Netherlands (GONL) has introduced a 6 billion euro (USD 7.5 billion) economic stimulus package (equivalent to one percent of Dutch GNP) to help Dutch businesses weather the economic downturn. Highlights include corporate tax breaks, shorter working hours and corresponding unemployment benefits, and accelerated infrastructure projects. The GONL may be forced to revise its projected 2009 budget surplus downward in the face of new, weaker economic indicators. After buying the Dutch operations of failed Belgian financial conglomerate Fortis in October, the GONL announced plans to merge Fortis Bank Nederland and ABN AMRO Bank Nederland under the new leadership of former Dutch Finance Minister Gerrit Zalm. Public consensus is that Prime Minister Balkenende's cabinet has been proactive and thoughtful thus far in its responses to the financial crisis. End summary.

#### NEW ECONOMIC STIMULUS PACKAGE

[¶12.](#) (SBU) Prime Minister Balkenende announced a 6 billion euro (USD 7.5 billion) economic stimulus package November 21 to help Dutch businesses weather the effects of the financial crisis. The package corresponds to roughly one percent of Dutch GNP, in keeping with expectations for an EU-wide rescue plan currently being developed by the European Commission in which member states would commit one percent of GNP to economic rescue measures. Although the details of the Dutch package may not be finalized until after the EU-wide plan is agreed upon, Prime Minister Balkenende confirmed certain key elements in a lengthy November 21 letter to Parliament and subsequent public statements. These include:

-- Accelerated write-offs on investments are now available to Dutch companies, which the GONL expects to yield 2 billion euro (USD 2.5 billion) in corporate tax benefits. The temporarily lower corporate tax rate of 20 percent will also be applied in 2009 and 2010, instead of reverting to the higher rate of 23 percent in 2009 as the GONL had originally planned.

-- In response to pressure from both employers and labor unions, the GONL will allow companies to temporarily institute a shorter work week as an alternative to firing employees. The GONL will use 200 million euro (USD 252 million) in unemployment benefit reserves to compensate

employees for up to 24 weeks for the hours they are no longer on the clock.

-- The GONL will establish regional mobility centers to provide re-training and assist with job searches for workers who have been laid off.

-- The GONL plans to speed up a number of large-scale infrastructure projects to stimulate employment, including the new Delta Works project to protect the Netherlands against rising sea levels over the next few decades.

-- The process of acquiring a building permit will be streamlined in an effort to stimulate activity in the construction sector.

#### GLOOMY ECONOMIC INDICATORS ) AND 2009 BUDGET DOUBTS

¶3. (U) Prime Minister Balkenende asserted that the stimulus package was necessary in the face of worsening economic indicators. The Dutch National (Central) Bank now predicts 0.4 percent GDP growth in 2009, compared to 2.3 percent in ¶2008. Inflation is also expected to increase from 2.5 Q2008. Inflation is also expected to increase from 2.5 percent in 2008 to 3.0 percent in 2009, and unemployment from 3.0 to 3.4 percent.

¶4. (SBU) Prior to the full onset of the financial crisis, the GONL had predicted in September a 2009 government budget surplus of 1.2 percent of GDP (ref B). Although Finance Minister Bos said as late as November 18 that this figure did not need to be revised, public skepticism is mounting. The surplus was based in part on an assumption of oil prices at USD 125 per barrel, as opposed to the current price of USD 54 per barrel. It also was based on predicted 2009 GDP growth of 1.25 percent, as opposed to the current estimates of 0.4

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percent. Coupled with the almost 30 billion euro (USD 38 billion) to date in emergency capital funds, economic stimulus measures, and other government expenditures to address the effects of the financial crisis, as well as expected lower tax revenue as a result of the economic slowdown, many expect the GONL to revise its 2009 budget predictions downward.

#### FORTIS AND ABN AMRO BANKS TO MERGE

¶5. (SBU) Finance Minister Bos announced November 21 that Fortis Bank Nederland and ABN AMRO Bank Nederland would merge under the new leadership of former Dutch Finance Minister Gerrit Zalm. As part of the dissolution of the failed Belgian financial conglomerate, the GONL purchased all of Fortis, Dutch operations October 3 for 16.8 billion euro (USD 21 billion); these included Fortis Bank Nederland, the Fortis-owned portions of ABN AMRO, and the insurance companies Fortis Verzekeringen Nederland and Fortis Corporate Insurance (ref C). After weeks of closed-door negotiations with the companies, their unions, and relevant ministries, the GONL announced its plan to sell the two insurance companies as quickly as possible, while retaining ownership of the two banks and overseeing their merger into a new, larger Dutch bank under the name ABN AMRO. Minister Bos indicated that the GONL will sell the new bank, but not until 2011 at the earliest. His goal is to leave behind a strong bank that can move forward on its own strength and that we can sell with a profit to the taxpayer.<sup>8</sup> The European Commission still must approve the merger, but Ministry of Finance sources told us that discussions with the commission had been going smoothly, and the GONL expects approval to be forthcoming quickly.

¶6. (SBU) The merger is expected to result in 8,000 lost jobs, but since this is the same number that labor unions had expected if the banks had remained separate, they have reacted well to the plan. (The two banks and two insurance

companies currently employ a total of 40,000 people.) Meanwhile, with his combination of banking and political experience, Gerrit Zalm is seen as highly qualified to oversee the merger, and his lack of ties to either Fortis or ABN AMRO make his an objective choice as well. While the management of Fortis Bank Nederland expressed support for the merger, that of ABN AMRO reacted with a marked lack of enthusiasm. ABN AMRO, once the Netherlands' flagship bank before Fortis purchased it in 2007, had hoped to remain independent, in part due to concerns that a merger would create even more job uncertainty for bank employees. Despite these objections, however, the consensus was that a merger was the best way to restore confidence and ultimately create a large, profitable institution that the GONL could eventually sell at a competitive price.

COMMENT

¶7. (SBU) Comment: Continuing its tradition as a global financial player, the Netherlands thus far has acted as a model of proactive intervention for the rest of the EU. Even before the December meetings of EU finance ministers and heads of state, the GONL has implemented its own economic stimulus package amounting to one percent of GNP, and the GONL has emphasized that it stands ready to do more if the economy continues to slow. That said, the Dutch Government prides itself on fiscal discipline, and it undertakes this fiscal stimulus with some reservation ) it does not want to be seen as throwing lifelines to companies that were uncompetitive even before the credit crisis. The Dutch have adopted a patient approach to ABN AMRO and Fortis, choosing to nurse them back to health as a single entity with greater scale rather than dispose pieces of them at fire-sale prices.

While debate in parliament and the media continues about the specifics of the GONL's actions, public consensus is that Prime Minister Balkenende's cabinet has been proactive and thoughtful in its responses to the financial crisis. End comment.

CULBERTSON